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SUBJ: ECONOMIC ASPECTS OF PRESIDENT GEISEL'S MESSAGE TO CONGRESS

REFS: A. BRASILIA 1653 B. BRASILIA 9711

1. SUMMARY: ECONOMIC ASPECTS CONSTITUTED MORE THAN HALF OF GEISEL'S YEARLY MESSAGE TO CONGRESS. THE PRESIDENT CHARACTERIZED 1974 AS A TRANSITIONAL YEAR AND WAS BASICALLY OPTIMISTIC ABOUT THE UNDERLYING DYNAMISM OF THE BRAZILIAN ECONOMY. WHILE ACKNOWLEDGING THE BALANCE OF PAYMENTS CONSTRAINT, HE REMAINED HOPEFUL THAT BRAZIL CAN MAINTAIN THE DIFFERENCE BETWEEN ITS ECONOMIC GROWTH RATE AND THAT OF THE DEVELOPED COUNTRIES. GEISEL HIGHLIGHTED INCOME DISTRIBUTION AND THE DEVELOPMENT OF THE PRIVATE SECTOR AS IMPORTANT GOALS FOR 1975. END SUMMARY.

2. CALLING 1974 A TRANSITIONAL YEAR BETWEEN THE FIRST AND SECOND NATIONAL DEVELOPMENT PLANS, PRESIDENT GEISEL SAID THAT THE OVERALL GROWTH OF THE BRAZILIAN ECONOMY IN 1974 WAS, IN GENERAL, SATISFACTORY, DESPITE THE HIGH
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RATE OF INFLATION AND BALANCE OF PAYMENTS DEFICIT. THE

ESTIMATED 9.6 PERCENT GROWTH RATE OF THE GROSS DOMESTIC PRODUCT WAS NOTED BY GEISEL AS AN INDICATION THAT, DESPITE WORLD-WIDE ECONOMIC STAGNATION, THE BRAZILIAN ECONOMY MAINTAINED THEY DYNAMIC PERFORMANCE OF THE PAST FEW YEARS. WITH RESPECT TO 1975, GEISEL NOTED THAT BRAZIL INTENDS TO MAINTAIN, AND EVEN INCREASE, THE DIFFERENCE BETWEEN ITS ECONOMIC GROWTH RATE AND THAT OF THE DEVELOPED COUNTRIES. HE CLAIMED THAT BRAZIL'S ECONOMY IS PRETTY MUCH INSULATED FROM THE STAGNATION OF THE WORLD ECONOMY.

3. ON THE BALANCE OF PAYMENTS FRONT, GEISEL NOTED THE MEASURES BEING TAKEN TO DECREASE SUBSTANTIALLY THE TRADE DEFICIT--BOTH BY DECREASING IMPORTS AND BY INCREASING EXPORTS. HE PREDICTED THAT EXPORTS WOULD REACH \$10 BILLION IN 1975. IN THIS REGARD, THE PRESIDENT STRESSED THE IMPORT-ANCE OF INCREASING DOMESTIC OIL PRODUCTION AND THE NEED TO PROCEED WITH THE GOVERNMENT'S IMPORT-SUBSTITUTION PROGRAMS IN RAW MATERIALS, NON-FERROUS METALS, CAPITAL GOODS INDUSTRY, ETC. THE PRESIDENT PREDICTED THAT BRAZIL WOULD BE SELF-SUFFICIENT IN THE PRODUCTION OF BASIC PRODUCTS BY THE END OF THE DECADE.

4. WITH REGARD TO INFLATION, WHICH IN 1974 WAS IN THE 34-35 PERCENT RANGE, GEISEL EMPHASIZED THE CONTRIBUTION OF IMPORTED INFLATION. HE NOTED ALSO THE TRANSITIONAL ASPECTS OF THE 1974 INFLATION, SAYING THAT GOVERNMENT SUBSIDIES TO SUCH ITEMS AS GASOLINE, STEEL AND FERTILIZERS HAD BEEN ELIMINATED DURING THE COURSE OF THE YEAR. GEISEL INDICATED THAT INFLATION RATE WOULD CONTINUE THE SLACKENING PACE OF THE LAST SEVERAL MONTHS SINCE THERE WILL BE NO MAJOR PRICE DISTORTIONS REQUIRING ADJUSTMENT IN 1975.

5. AS REGARDS THE DEVELOPMENT OF THE VARIOUS SECTORS OF THE ECONOMY, GEISEL HIGHLIGHTED THE IMPORTANCE OF DEVELOPING THE URBAN MASS TRANSIT SYSTEM, AND THE PORT NETWORK. IN THE AGRICULTURAL AREA, GEISEL MADE A SPECIAL REFERENCE TO THE NEED TO IMPLEMENT MORE JUDICIOUSLY THE PROGRAM OF NATIONAL FOOD SUPPLY COUNCIL, THE NATIONAL COMMISSION FOR RURAL CREDIT POLICY AND THE COMMISSION FOR RESEARCH, TECHNICAL LIMITED OFFICIAL USE

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ASSISTANCE, AND RURAL EXTENSION--ALL OF WHICH ARE DESIGNED TO INCREASE AGRICULTURAL PRODUCTIVITY AND PRODUCTION. HE ALSO NOTED THE NEED TO CREATE AND TRANSFER MORE TECHNOLOGY INTO THE AGRICULTURAL SECTOR.

6. ON INDUSTRIAL POLICY, GEISEL MENTIONED THE RESHUFFLING OF PRIORITIES WHICH HAD BEEN UNDERTAKEN IN 1974. HE SAID THE INDUSTRIAL DEVELOPMENT COUNCIL WAS NOW GIVING GREATER

EMPHASIS TO AREAS WHERE INDUSTRIAL CONCENTRATION WAS LOW, IN AN ATTEMPT TO ATTENUATE REGIONAL DISPARITIES AND CONTROL ENVIRONMENTAL POLLUTION. HE EXPRESSED SATISFACTION WITH THE REACTION OF DOMESTIC AND FOREIGN INVESTORS TO THESE NEW GUIDELINES.

7. ON SOCIAL POLICY, GEISEL NOTED THAT HIS ADMINISTRATION IS GIVING THIS AREA HIGH PRIORITY. HE OUTLINED THE ACHIEVEMENTS IN EDUCATION, HEALTH, AND SOCIAL ASSISTANCE DURING THE PAST YEAR. HE SINGLED OUT FOR SPECIAL MENTION THE CHANGE IN WAGE POLICY INTENDED TO ASSIST THE LOWER CLASSES. HE SAID THAT A BETTER INCOME DISTRIBUTION IS AN IMPORTANT ELEMENT OF HIS SOCIAL PROGRAM.

8. WITH RESPECT TO THE ROLE OF GOVERNMENT IN THE ECONOMY, GEISEL ASSURED THAT HE DID NOT INTEND TO TURN THE ECONOMY INTO AN AUTARCHY, BUT THAT THE GOVERNMENT WOULD BE PREPARED TO STEP IN, PARTICULARLY IN THE DEVELOPMENT OF NATURAL RESOURCES, TO PREVENT EXCESSIVE RELIANCE ON FOREIGN CAPITAL. HE REITERATED THE GOVERNMENT'S SUPPORT FOR THE DEVELOPMENT OF THE PRIVATE SECTOR.

9. COMMENT: GEISEL'S MESSAGE TO THE CONGRESS FOLLOWS CLOSELY HIS YEAR-END SPEECH (REFTEL B). PERHAPS THE ONE SIGNIFICANT ADDITION IN HIS MESSAGE TO CONGRESS WAS AN ATTEMPT TO DEFINE THE ROLE OF GOVERNMENT IN THE ECONOMY. THIS WAS PROBABLY DONE IN REPLY TO THE RECENT STORIES, WHICH HAVE APPEARED IN THE "O ESTADO" AND OTHER PAPERS, CRITICIZING THE GOVERNMENT FOR INCREASING ITS PARTICIPATION IN THE ECONOMY.

10. PRESIDENT'S EXTENSIVE COMMENTS ON THE TRADE ACT. REPORTED SEPTEL.
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